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FAR EAST



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2. Karens and Burmese Communists nearing an alliance:

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In early April staff-level representatives of the Karens and the Burmese Communists reached an agreement on joint operations and the administration of captured areas,

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No agreement was reached regarding the boundaries of a future Karen state.

While feeling that a complete alliance with the Communists is inevitable, the top Karen leadership is reportedly stalling for time in the hope of receiving military assistance from other sources.

Comment: This is the latest in a series of reports indicating progress toward an alliance between the two major insurgent forces in Burma.

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NEAR EAST - AFRICA

3. Iran offers to include oil in exports to USSR:

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[Redacted]

Iran has now agreed to include oil on its list of exports offered to the USSR under the pending trade agreement. The Iranians, however, have made the offer conditional on the payment of world market prices, on limitations on quantity, and on the Russians' taking delivery at Abadan. They also insist on Soviet deliveries of sugar and machinery in exchange. The Russians reportedly are displeased with these conditions.

The US Embassy in Tehran comments that the USSR could be expected to make every effort to move the petroleum if it thought this would result in discontinuance of American aid to Iran.

4. Iranian oil official says Italian tanker expected:

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[Redacted]

A National Iranian Oil Company spokesman has confirmed information received by the American Embassy that a tanker is due momentarily at Abadan to load one thousand tons of crude oil for Italy. The spokesman described the shipment as an experiment which, if successful, would result in further shipments.

Comment: This is the first confirmed report since the British withdrawal from Abadan that a tanker is actually prepared to load there. An Italian oil company representative in Iran on 20 May informed an American Embassy official that an Italian ship was due in Abadan on 21 or 22 May. The British Admiralty reports that the vessel is the Italian-owned tanker Rosemary, under charter to a Swiss company.

The shipment is apparently the first to be made under a two million ton per year contract reportedly concluded between Iran and a small Italian petroleum company in February. The Italian Government has made definite assurances that no Iranian oil will be given import licenses. These assurances will not necessarily prevent shipment of the oil to another country.

EASTERN EUROPE

5. Yugoslav estimate of Satellite strength:

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[REDACTED] recently informed the US Army Attaché in Belgrade that his government does not visualize any outbreak of hostilities with the neighboring Satellites in the predictable future. The general staff estimates that Rumania and Albania remain negligible in combat potential, whereas the Hungarian armed forces are continuing to expand, and now possess qualities which must be reckoned with.

In an earlier conversation with Ambassador Allen, Marshal Tito stated that Bulgaria was Yugoslavia's most dangerous Satellite neighbor.

Comment: In the past, Yugoslav estimates have indicated considerable scorn for the military capabilities of the neighboring Satellites, except Bulgaria.

6. Czech jets make identification passes at Belgian airliner:

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[REDACTED] On 19 May three MIG-15's made identification passes to within about 700 feet of a Belgian airliner flying inside its corridor over Czechoslovakia. No attempt was made to interfere with the plane's line of flight. The United States Embassy in Prague warns that a corridor or border violation may result in more drastic action by Czech jet interceptors.

Comment: This incident could be a Czech warning of potential unpleasantness if Belgium and the Netherlands fail to grant a Czech request for reciprocal flight rights. Czechoslovakia has been pressing both the Netherlands and Belgium for several months to grant it landing rights in order to re-establish its air routes to Western Europe which were cut off on 10 September.

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WESTERN EUROPE

7. Soviet tough line in Germany seen meeting early test:

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The next few weeks may be the test, according to American officials in Bonn, of the actual effect in West Germany of the Kremlin's new tough line. The High Commissioner's office

points out that the "crust of West German courage is understandably thin" under the present circumstances, but that it may be hardened if the Allies are able to show a determination to counter Soviet moves.

HICOG believes that the Soviet Union will not impose a full-scale blockade of West Berlin, but is more likely to impose a "creeping blockade" of selective harassing, possibly restricted to outward movements from Berlin, combined with an Eastern offer to absorb West Berlin's production. As West German integration becomes a fact, the Kremlin may also insist more and more that the Western powers deal with the East German Government, acting as a front for the USSR.

8. Britain blocking agreement on German defense contribution:

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German Finance Minister Schaeffer is evidently prepared to accept the American proposal that Germany's defense contribution be divided between the Allies and Germany on

the basis of increasing the German share after a period of continuing high payments to the Allies for support of their forces in Germany.

British representatives, however, have been instructed to insist upon a flat monthly rate for support costs on the grounds that scaling down German payments to the Allies this year would prejudice the British bargaining position for the period after 30 June 1953.

Comment: Althogh Schaeffer's conciliatory attitude presents some hope of reaching an agreement in principle on the defense contribution, the inability of the British negotiators to modify their position may make it necessary to leave the entire question for the Foreign Ministers to settle.

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10. Italian Government faces danger in 25 May elections:

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The United States Embassy in Rome believes that the extensive gains which the extremist parties are "certain" to make in the 25 May South Italian elections will "jolt" Premier de Gasperi's government and result in insistence by the left, and probably also by the right, on immediate national elections.

The center's continuing ability to hold a national working majority against both the Communists and the extreme right will meet its test in Rome, where the Christian Democrats are linked in an electoral bloc with other moderate parties only. The Embassy believes the center alliance will pull through in Rome, but with a plurality of only 50,000 or fewer votes as compared with 320,000 in the 1948 national elections.

Should De Gasperi lose the city, "even the staunchest supporter of the center would have to admit doubt of its continuing viability." The ensuing crisis could bring about national elections this fall, or a radical reorganization of the government, possibly with the resignation of De Gasperi, or an admission of government weakness by postponement of national elections from 1953 to 1954.